

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 21-1-07DC

January 2021



GOVERNMENT OF THE DISTRICT OF COLUMBIA OFFICE OF LOTTERY AND GAMING

Financial Statements and Management's Discussion and Analysis
(With Independent Auditors' Report)
For Fiscal Years Ended September 30, 2020 and 2019



Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation
* Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration
* Diversity * Measurement * Continuous Improvement*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world-class Office of the Inspector General that is customer-focused and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership
* Transparency * Empowerment * Courage * Passion
* Leadership



GOVERNMENT OF THE DISTRICT OF COLUMBIA

Office of the Inspector General

Inspector General



January 29, 2021

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
1350 Pennsylvania Avenue, N.W., Suite 316
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Government of the District of Columbia Office of Lottery and Gaming Financial Statements and Management's Discussion and Analysis (With Independent Auditors' Report) For Fiscal Years Ended September 30, 2020 and 2019* (OIG No. 21-1-07DC). McConnell Jones, LLP (MJ) conducted the audit and submitted this component report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2020.

On January 8, 2021, MJ issued its opinion and concluded that the financial statements are presented fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America. MJ identified no material weaknesses in internal control over financial reporting.

If you have questions about this report, please contact me or Fekede Gindaba, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,


Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

cc: See Distribution List

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**GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING**

**FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION
AND ANALYSIS (WITH INDEPENDENT AUDITORS' REPORT)**

SEPTEMBER 30, 2020 AND 2019

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
SEPTEMBER 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Mayor, Members of the Council of the Government of the District of Columbia,
Inspector General of the Government of the District of Columbia and
The Management of the Office of Lottery and Gaming
Washington, D.C.

Report on the Financial Statements

We have audited the accompanying financial statements of the Office of Lottery and Gaming (the Lottery), an enterprise fund of the Government of the District of Columbia, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Lottery's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lottery as of September 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the financial statements present only the Lottery enterprise fund and do not purport to, and do not present fairly the financial position of the Government of the District of Columbia as of September 30, 2020, the changes in its financial position or, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to the matter.

Other Matters***Prior Period Financial Statements***

The financial statements of the Lottery as of and for the year ended September 30, 2019 were audited by other auditors. Those auditors expressed an unmodified opinion on those statements in their report dated January 3, 2020.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2021, on our consideration of the Lottery's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lottery's internal control over financial reporting and compliance.



Washington, D.C.
January 8, 2021

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

The discussion and analysis of the Office of Lottery and Gaming (the Lottery) financial performance provides an overview of its financial activities for the fiscal years ended September 30, 2020 and 2019. This discussion and analysis should be read in conjunction with the attached financial statements.

Background and Other Significant Information

The Lottery was established by Public Law 3-172 as an independent agency of the Government of the District of Columbia (the District). In accordance with law, the Lottery is responsible for generating revenues through the sale of lottery and sports wagering products and is required to remit monthly gaming revenues less prizes, operating expenses and a reserve not to exceed 2% of annual prize payments to the General Fund of the District.

The Lottery's financial transactions are accounted for as an enterprise fund in the District's basic financial statements.

Financial Highlights

- Gross revenues from lottery and sports wagering gaming activities increased by \$1,861 or .87% from the prior year amount.
- The Lottery generated ticket sales of \$208,132 for a decrease of \$4,930 or 2.31% less than the prior year total of \$213,062.
- Total operating expenses increased by \$8,533 or 5.07% primarily because of introductory costs associated with sports wagering.
- Prize payouts for lottery gaming activities in 2020 decreased by \$386 or .31% compared to 2019 and reflected a payout rate of 59.09% of ticket sales versus 57.91% the prior year.
- Contractor's fees for lottery gaming and sports wagering activities increased by a combined \$840 or 12.28% from the prior year primarily due to increased vendor contract costs.
- Transfers to the District's General Fund decreased by \$6,990, equivalent to 15.52% below the prior year's total; primarily due to the decrease in lottery game sales and inaugural sports wagering costs.

To effectively understand the Lottery's operations and to assess its financial activities, the reader must be aware of individual game sales, related prize expenses and payout percentages, the impact on change in net position and resulting transfer to the District's General Fund. Prize payouts and the volume of Powerball, Mega Million and Lucky For Life sales have the most dramatic impact on transfer levels but are beyond the control of management.

Using This Financial Report

This financial report consists of a series of financial statements, prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. These statements focus on the financial condition, the results of operations, and cash flows of the Lottery as a whole.

One of the most important questions asked about the Lottery's finances is whether or not they have improved as a result of the year's activities. The key to understanding this core question is the Statements of Net Position; the Statements of Revenues, Expenses, and Change in Net Position; and the Statements of Cash Flows. These statements present financial information in a form that is similar to that used by commercial entities.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

The Lottery's net position (the difference between assets and liabilities) is an indicator of the improvement or erosion of financial health. The Statements of Net Position includes all assets and liabilities. It is prepared under the economic resources' measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when the related liability is incurred.

The Statements of Revenues, Expenses and Change in Net Position present the revenues earned and the expenses incurred during each year. Activities are reported as either operating or non-operating. Another important factor to consider when evaluating financial viability is the Lottery's ability to meet financial obligations as they come due. The Statements of Cash Flows present information related to cash inflows and outflows summarized by operating, non-capital financing, capital financing and investing activities.

Financial Analysis

The Lottery's net position increased by \$73 and \$35 for the years ended September 30, 2020 and 2019, respectively. The following is a summary of the Lottery's financial information as of and for the years ended September 30, 2020 and 2019, and 2018.

Table 1: Summary of Net Position
(In Thousands)

| | September 30 | | |
|--|---------------------|-------------|-------------|
| | 2020 | 2019 | 2018 |
| Assets: | | | |
| Current and Other Assets | \$ 21,151 | \$ 17,075 | \$ 16,686 |
| Capital Assets (net of accumulated depreciation) | 414 | 595 | 646 |
| Restricted Investments | 809 | 1,190 | 1,547 |
| Total Assets | 22,374 | 18,860 | 18,879 |
| Liabilities: | | | |
| Accounts Payable and Accrued Expenses | 6,288 | 3,381 | 3,304 |
| Unearned Revenue | 61 | 55 | 44 |
| Accrued Prizes and Commissions | 10,448 | 9,539 | 9,324 |
| Obligations for Unpaid Prizes – Short-term | 410 | 410 | 410 |
| Obligations for Unpaid Prizes – Long-term | 399 | 780 | 1,137 |
| Total Liabilities | 17,606 | 14,165 | 14,219 |
| Net Position: | | | |
| Net Investment in Capital Assets | 414 | 595 | 646 |
| Unrestricted | 4,354 | 4,100 | 4,014 |
| Total Net Position | \$ 4,768 | \$ 4,695 | \$ 4,660 |

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

Table 2: Summary of Revenues, Expenses, and Change in Net Position
(In Thousands)

| | Years Ended September 30 | | |
|--|---------------------------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| Operating Revenues: | | | |
| Gaming Revenues | \$ 214,933 | \$213,072 | \$210,264 |
| Operating Expenses: | | | |
| Prizes | 128,395 | 123,375 | 117,365 |
| Other | 48,592 | 45,079 | 44,032 |
| Total Operating Expenses | <u>176,987</u> | <u>168,454</u> | <u>161,397</u> |
| Operating Income | 37,946 | 44,618 | 48,867 |
| Non-operating Revenues – Interest, Dividends and Other | | | |
| Income before Transfers | 187 | 467 | 696 |
| | <u>38,133</u> | <u>45,085</u> | <u>49,563</u> |
| Transfers to the District's General Fund | <u>(38,060)</u> | <u>(45,050)</u> | <u>(49,500)</u> |
| Change in Net Position | <u>\$ 73</u> | <u>\$ 35</u> | <u>\$ 63</u> |

Unrestricted net position was \$4,354, \$4,100 and \$4,014 as of September 30, 2020, 2019 and 2018, respectively, which represents an increase of \$254 and \$86, respectively. Total assets increased by \$3,514 in 2020 and decreased by \$19 in 2019, respectively. Total liabilities increased by \$3,441 or 24.29% and decreased by \$54 or .38% for the years ended September 30, 2020 and 2019, respectively; primarily due to costs associated with the implementation of the sports wagering program. The Multistate Lottery Association (MUSL) purchases U.S. government securities in the name of the Lottery for Lotto America and Powerball jackpot winners from the District of Columbia. Jackpot winners have the option of accepting the cash value of the jackpot amount or annuity payments for 25 years. The restricted investments balance of \$809, \$1,190 and \$1,547 as of September 30, 2020, 2019 and 2018, respectively, represents the net present value of securities totaling \$810, \$1,210 and \$1,610 as of September 30, 2020, 2019 and 2018, respectively, to fund future annuity installment payments. The restricted investments value decreased by \$381 and \$357 during fiscal years 2020 and 2019, respectively, due to payments of \$400 in 2020, 2019 and 2018, net of unrealized gains of \$6, \$14 and \$8 in fiscal years 2020, 2019 and 2018, respectively. Accretion of investments totaled negatives of \$175 in 2020, \$156 in 2019 and \$49 in 2018, respectively. Corresponding amounts are recorded as obligations for unpaid prizes.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

Table 3: Gaming Revenues, Prizes, Commissions and Transfers
(In Thousands)

| Index Class | Gaming Revenue | Prizes | Retailer Commissions | Contractor Fee | Advertising | Gross Margin | Transfers |
|-------------------------|-------------------|--------------------|----------------------|-------------------|-------------------|------------------|------------------|
| Fiscal Year 2020 | | | | | | | |
| DC 3 | \$ 41,843 | \$ (21,316) | \$ (2,735) | \$ (1,473) | \$ (1,248) | \$ 15,071 | \$ 9,843 |
| DC TWO | 632 | (316) | (41) | (22) | (19) | 234 | 153 |
| DC FIVE | 24,416 | (11,569) | (1,399) | (859) | (728) | 9,861 | 6,440 |
| DC FOUR | 55,931 | (30,605) | (3,643) | (1,968) | (1,668) | 18,047 | 11,786 |
| FAST PLAY | 7,838 | (5,712) | (563) | (276) | (234) | 1,053 | 688 |
| INSTANT | 47,188 | (34,815) | (3,565) | (1,661) | (1,407) | 5,740 | 3,718 |
| THE LUCKY ONE | 68 | (45) | (5) | (2) | (2) | 14 | 9 |
| KENO | 6,654 | (4,580) | (467) | (234) | (198) | 1,175 | 767 |
| LUCKY FOR LIFE | 1,903 | (1,079) | (107) | (67) | (57) | 593 | 388 |
| MEGA MILLIONS | 4,741 | (2,311) | (214) | (167) | (141) | 1,908 | 1,246 |
| POWERBALL | 5,810 | (2,726) | (303) | (205) | (173) | 2,403 | 1,569 |
| RACE2RICHES | 8,937 | (6,239) | (626) | (315) | (266) | 1,491 | 974 |
| TAP-N-PLAY | 2,171 | (1,676) | (159) | (76) | (65) | 195 | 127 |
| OTHER | 5 | - | - | - | - | 5 | - |
| Total | \$ 208,137 | \$(122,989) | \$ (13,827) | \$ (7,325) | \$ (6,206) | \$ 57,790 | \$ 37,708 |
| Fiscal Year 2019 | | | | | | | |
| DC 3 | \$ 38,555 | \$ (18,610) | \$ (2,485) | \$ (1,238) | \$ (1,221) | \$ 15,001 | \$ 10,587 |
| DC TWO | 540 | (254) | (35) | (17) | (17) | 217 | 157 |
| DC FIVE | 22,475 | (13,114) | (1,278) | (721) | (712) | 6,650 | 4,813 |
| DC FOUR | 51,757 | (24,124) | (3,217) | (1,661) | (1,639) | 21,116 | 15,284 |
| FAST PLAY | 8,110 | (6,002) | (586) | (260) | (257) | 1,005 | 727 |
| INSTANT | 52,335 | (38,453) | (3,930) | (1,680) | (1,658) | 6,614 | 4,788 |
| THE LUCKY ONE | 179 | (119) | (12) | (6) | (6) | 36 | 26 |
| KENO | 6,605 | (4,091) | (449) | (212) | (209) | 1,644 | 1,190 |
| LUCKY FOR LIFE | 2,118 | (1,460) | (107) | (68) | (67) | 416 | 302 |
| MEGA MILLIONS | 9,563 | (4,677) | (466) | (307) | (303) | 3,810 | 2,758 |
| POWERBALL | 9,784 | (4,696) | (517) | (314) | (310) | 3,947 | 2,856 |
| RACE2RICHES | 8,710 | (5,958) | (607) | (280) | (276) | 1,589 | 1,151 |
| TAP-N-PLAY | 2,331 | (1,817) | (171) | (75) | (74) | 194 | 141 |
| OTHER | 10 | - | - | - | - | 10 | - |
| Total | \$ 213,072 | \$(123,375) | \$ (13,860) | \$ (6,839) | \$ (6,749) | \$ 62,249 | \$ 45,050 |
| Fiscal Year 2018 | | | | | | | |
| DC 3 | \$ 39,529 | \$ (18,941) | \$ (2,545) | (1,278) | \$ (1,202) | \$ 15,563 | \$ 11,684 |
| DC TWO | 573 | (480) | (43) | (18) | (17) | 15 | 10 |
| DC FIVE | 21,940 | (9,651) | (1,240) | (709) | (667) | 9,673 | 7,261 |
| DC FOUR | 52,461 | (22,462) | (3,219) | (1,696) | (1,595) | 23,489 | 17,634 |
| FAST PLAY | 9,248 | (7,104) | (667) | (299) | (281) | 897 | 673 |
| INSTANT | 49,493 | (37,210) | (3,783) | (1,600) | (1,505) | 5,395 | 4,050 |
| THE LUCKY ONE | 112 | (75) | (8) | (4) | (3) | 22 | 16 |
| KENO | 7,445 | (4,665) | (507) | (241) | (226) | 1,806 | 1,356 |
| LUCKY FOR LIFE | 2,164 | (1,331) | (133) | (70) | (66) | 564 | 423 |
| MEGA MILLIONS | 7,136 | (3,532) | (370) | (231) | (217) | 2,786 | 2,092 |
| POWERBALL | 9,034 | (4,220) | (468) | (292) | (275) | 3,779 | 2,837 |
| RACE2RICHES | 8,506 | (5,670) | (591) | (275) | (259) | 1,711 | 1,285 |
| TAP-N-PLAY | 2,618 | (2,024) | (192) | (85) | (80) | 237 | 179 |
| OTHER | 5 | - | - | - | - | 5 | - |
| Total | \$ 210,264 | \$(117,365) | \$ (13,766) | \$ (6,798) | \$ (6,393) | \$ 65,942 | \$ 49,500 |

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

Table 3 provides a comparison of sales, prizes, retailer commissions, gross margin, and transfers to the District's General Fund generated by each lottery product offered. Overall lottery gaming revenues totaled \$208,137, \$213,072 and \$210,264 in fiscal years 2020, 2019 and 2018, respectively. Prize expenses decreased \$386 or .31% in 2020 and increased \$6,010 or 5.12% in 2019. Total prize payouts as a percentage of gaming revenue was 59.09%, 57.91% and 55.82% in fiscal years 2020, 2019 and 2018, respectively. Retailer commissions decreased \$32 in 2020 and increased \$94 in 2019, respectively, due to the respective decreases in ticket sales and prize payouts.

DC 3 --- DC 3 is a daily three-digit game in which players may wager 50 cents or one dollar with nine ways to win prizes ranging from 25 to 500 dollars. In 2020, sales totaled \$41,843 for a \$3,288 or 8.53% increase from 2019. Sales in 2019 totaled \$38,555 for a \$974 or 2.46% reduction from 2018 sales of \$39,529. The game continues to be impacted by the demographic changes in the District's population. The Lottery continues to strategically implement marketing and promotional campaigns to stabilize and enhance sales for the game.

Prizes amounted to \$21,316 in 2020, for a \$2,706 or 14.54% increase above the prior year. Prizes amounted to \$18,610 in 2019, for a \$331 or 1.75% decrease below 2018 prizes that amounted to \$18,941. Retailer commissions expense increased by \$250 primarily due to the noted increase in sales. Net proceeds to the District's General Fund in 2020 totaled \$9,843 for a \$1,014 or 9.34% decrease compared to 2019. The transfer in 2019 totaled \$10,857 for a \$827 or 7.08% decrease compared to the 2018 transfer of \$11,684. The DC Three game accounted for 20.10% of total gaming revenue and 26.08% of the overall gross margin. The game reflected an increase of 2.0% in gaming revenue percentage contribution, and an increase of 1.98% in gross margin percentage contribution due to higher prizes and sales.

DC TWO --- DC Two is a daily two-digit game launched on March 11, 2018 in which players may wager 50 cents or one dollar with five ways to win prizes ranging from 25 to 50 dollars. The five ways to play DC2 are – (1) Straight Match, (2) Box, (3) Straight/Box, (4) 2-way Combo and (5) Front / Back Number. The game is designed to payout 50% in prizes. Prizes vary based on play type, and the top prize with a \$1 bet is \$50. The draw takes place twice a day everyday (day & evening).

Sales in 2020 totaled \$632 for a \$92 or 17.04% increase from 2019. Sales in 2019 totaled \$540 for a \$33 or 5.76% decrease from its FY 2018 inaugural sales of \$573. Prizes amounted to \$316 in 2020, for a \$62 or 24.41% increase from 2019. Prizes amounted to \$254 in 2019, for a \$226 or 47.08% reduction from 2018 prizes of \$480. The retailer commissions amounted to \$41 in 2020, a \$6 or 17.14% increase from 2019. The retailer commissions amounted to \$35 in 2019, an \$8 or 18.60% decrease from 2018 retailer commissions of \$43. Transfers to the District's General Fund totaled \$152, \$157 and \$10 in FY 2020, 2019 and 2018, respectively.

DC FIVE --- DC Five is a daily five-digit game with a fixed prize payout. Players may wager 50 cents or one dollar for a chance to win thirteen different ways. Players select a number within the range 00000 to 99999. Tickets may be purchased for the next draw or up to seven consecutive draws for the mid-day and nightly drawings. Players also have the option for advance day play. This feature allows a player to place a bet for a specific day in the future.

In 2020, ticket sales totaled \$24,416 which represents a \$1,941 or 8.64% increase over prior year. Prizes and retailer commissions in 2020 amounted to \$11,569 and \$1,399, respectively. The result was a decrease in prizes of \$1,545 or 11.78% and an increase to commissions of \$121 or 9.47% over the prior year. The game generated \$6,440 in transfer to the District's General Fund in 2020 or \$1,627 or 33.80% more than 2019.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS *(Continued)*
SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

The decrease in prize payout percentage essentially accounts for the increase in the transfer.

Sales totaled \$22,475 in 2019, which represented a \$535 or 2.44% increase over 2018's total of \$21,940. Prizes and retailer commissions in 2019 and 2018 amounted to \$13,114 and \$9,651 and \$1,278 and \$1,240, respectively. The game generated \$4,813 and \$7,261 in transfers to the District's General Fund in 2019 and 2018, respectively.

DC FOUR — DC Four is a daily four-digit game with a fixed prize payout. Players may wager 50 cents or one dollar for a chance to win seven different ways. Ticket sales totaled \$55,931 in 2020, for a \$4,174 or 8.06% increase from the 2019 ticket sales of \$51,757. Ticket sales were \$51,757 in 2019, for a \$704 or 1.34% decrease from the 2018 ticket sales of \$52,461.

Prizes in 2020 totaled \$30,605, an increase of \$6,481 or 26.87% above the prior year. FY 2019 totaled \$24,124, an increase of \$1,662 or 7.4% from 2018 prizes of \$22,462. Transfers to the District's General Fund in 2020 totaled \$11,786 for a \$3,498 or 22.89% decrease from the \$15,284 transferred in 2019. Transfers to the District's General Fund in 2019 totaled \$15,284 for a \$2,350 or 13.33% decrease from the \$17,634 transferred in 2018. The increase in prize payouts accounts for the decrease in the transfer amount. The DC Four game was responsible for 26.87% of total gaming revenue and 31.23% of the overall gross margin. The 2.58% increase in gaming revenue contribution rate and 2.70% decrease in gross margin contribution percentages from over the prior year amounts is directly associated with changing demographics and an increase in prizes.

FAST PLAY— Fast Play games are a series of instant-style games printed and played through retailers' terminals. Fast Play tickets have a variety of games and each ticket is randomly drawn from a separate pool of tickets. Ticket cost and prizes vary depending on the version of game played. The Fast Play games' prizes are set at a fixed payout level. The player asks the agent/retailer for a specific type of Fast Play game and the ticket is generated at the terminal. The player knows immediately if he/she is a winner or not.

Ticket sales amounted to \$7,838 in 2020, a decrease of \$272 or 3.35% below the \$8,110 in 2019. Prizes and retailer commissions combined totaled \$6,275, \$6,558 and \$7,771 for fiscal years 2020, 2019 and 2018, respectively. Transfers to the District's General Fund amounted to \$688, \$727 and \$673 for fiscal years 2020, 2019 and 2018, respectively.

INSTANT TICKETS --- Instant or scratch games are designed to allow a player the opportunity to determine if he/she is an instant winner at the time of ticket purchase. The price of tickets and prize structure are determined before the production of the tickets. Instant ticket sales amounted to \$47,188 in 2020, representing a \$5,147 or 5.83% decrease below the 2019 sales of \$52,335.

Prizes in 2020 amounted to \$34,815, representing a \$3,638 or 9.46% decrease below the \$38,453 in 2019. Transfers to the District's General Fund totaled \$3,718 in 2020, for a \$1,070 or 22.35% decrease below the \$4,788 in 2019. Prizes in 2019 totaled \$38,453 for a \$1,243 or 3.34% increase above the \$37,210 expensed in 2018. Retailer commissions totaled \$3,930 in 2019 for a \$147 or 3.89% increase above the \$3,783 expensed in 2018. Transfers to the District's General Fund increased to \$4,788 in 2019, \$738 or 18.22% more than the \$4,050 generated in 2018. This was primarily the result of an increase in game revenues.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
MANAGEMENT'S DISCUSSION AND ANALYSIS (*Continued*)
SEPTEMBER 30, 2020 and 2019
(*Dollar Amounts in Thousands*)

Instant ticket sales in 2019 totaled \$52,335, an increase of \$2,842 or 5.74% over the \$49,493 in 2018. This was primarily the result of the return of a full portfolio of instant tickets. Prizes in 2019 totaled \$38,453 for a \$1,243 or 3.34% increase above the \$37,210 expensed in 2018. Retailer commissions totaled \$3,930 in 2019 for a \$147 or 3.89% increase above the \$3,783 expensed in 2018. Transfers to the District's General Fund increased to \$4,788 in 2019, \$738 more than the \$4,050 generated in 2018. This was primarily the result of an increase in game revenues.

THE LUCKY ONE --- The Lucky One is a monitor-based game with draws taking place every four minutes. Players select a "lucky number" between one and thirty-six (36). There are three ways to play "The Lucky One" game – The Lucky Number (picking the exact number drawn), odd/ even and high/ low. The odds of winning the top prize of \$24 with a wager of \$1 is 1 in 36, while the odds of winning with the odd/ even or high/ low bet types are 1 in 2. Players have the options of a \$1 or 50 cent play. The Lucky One game was launched on May 20, 2018.

The Lucky One ticket sales in 2020 amounted to \$68 in 2020, a decrease of \$111 or 62.01% from the \$179 sales total in 2019. Sales in 2019 amounted to \$179, an increase of \$67 or 59.82% from the inaugural 2018 sales of \$112. Prizes and commissions in 2020, 2019 and 2018 combined amounted to \$50, \$131 and \$83, respectively. The Lucky One contributed \$9, \$26 and \$16 in transfer to the District's General Fund in 2020, 2019 and 2018, respectively.

KENO --- Keno is a 10/20/80 game with fixed prizes. Players choose to play from 1 to 10 spots, with each spot having a different prize structure. Players select twenty numbers from a field of 80 numbers. Draws are held every four minutes during valid game times. Payouts range from five dollars to 100,000 dollars. Tier 1 prizes start as a fixed payout and transition to a pari-mutuel payout when the number of winners per draw exceeds 10. The game is supplemented by Keno Spin, which features a multiplier option to the game's prizes. The Keno game continues to be impacted by the changing demographics in the District of Columbia, inability to add new social settings and the economy. The Keno game is not offered at all retailer locations but continues to be marketed through targeted awareness and promotional campaigns.

Ticket sales for Keno totaled \$6,654 in 2020, representing a \$49 or 0.74% increase of the 2019 sales total of \$6,605. Prize expenses increased by \$489 to \$4,580 in 2020 when compared to the \$4,091 expensed in 2019. Retailer commissions totaled \$467 or 4.01% less than the \$449 expensed in 2019. Transfers to the District's General Fund decreased \$423 to \$767 in 2020 from the \$1,190 transferred in 2019. The decrease in transfer is attributed to the increase in prize expense.

Ticket sales for Keno totaled \$6,605 in 2019, representing a \$840 or 11.28% decrease of the 2018 sales total of \$7,445. Prizes expense decreased by \$574 to \$4,091 in 2019 when compared to the \$4,665 expensed in 2018. Transfers to the District's General Fund decreased \$166 to \$1,190 in 2019 from the \$1,356 transferred in 2018.

LUCKY FOR LIFE --- The Lucky for Life game is a multi-state, five out of forty-eight, plus one out of eighteen terminal lottery game that pays a top prize of \$1,000 per week for actual life and a second-tier prize of \$25,000 a year for life. There are eight other ways to win prizes up to \$5,000 for two dollars per play. Lucky for Life transactions are handled through the Multi-State Lottery Association (MUSL). Party lotteries pool their sales and other resources, but otherwise account for operations separately. The Lottery began selling Lucky for Life tickets effective February 15, 2015.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
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Lucky for Life ticket sales amounted to \$1,903 in 2020, \$215 or 10.15% less than the \$2,118 in 2019. The prizes in 2020 totaled \$1,079, \$381 less than the \$1,460 in 2019. Retailer commissions in 2020 and 2019 totaled \$107 and \$107, respectively. Lucky for Life produced a transfer to the District's General Fund in 2020 and 2019 of \$388 and \$302, respectively. The increase in transfer can be attributed to the decrease in prizes.

Lucky for Life ticket sales amounted to \$2,118 in 2019, \$46 or 2.13% less than \$2,164 in 2018. The prizes in 2019 totaled \$1,460, \$129 more than the \$1,331 in 2018. Retailer commissions in 2019 and 2018 totaled \$107 and \$133, respectively. Lucky for Life produced a transfer to the District's General Fund in 2019 and 2018 of \$302 and \$423, respectively.

MEGA MILLIONS --- The Mega Millions game is a five out of seventy-five plus one out of fifteen terminal lottery game that pays a grand prize or a cash lump sum payment and all other prizes on a fixed basis. It also includes a "Just the Jackpot" play option. The ticket cost is \$2, or \$3 with the "Just the Jackpot" option which includes two game plays. All annuity prizes are paid in twenty-six annual installments. Some states offer a megaplier feature to increase non-jackpot prizes by 2, 3, or 4 times. The Mega Millions game is sponsored by the Mega Millions Group, a conglomerate of twelve states, and participating MUSL members that combine resources and sales to offer larger jackpots. All Mega Millions transactions of the Lottery are handled through the Multi-State Lottery Association. Party lotteries pool their sales and other resources, but otherwise account for operations separately. The Mega Millions Group introduced changes to Mega Millions on April 3, 2020. The changes include elimination of an automatic \$40 million beginning jackpot and the guaranteed increase of \$5 million between drawings. The beginning jackpot and increase between drawings will be based on game sales and interest rates. The changes to the game are the result of declining sales due to the Covid-19 pandemic.

Mega Millions sales totaled \$4,741 in 2020, representing a \$4,822 or 50.42% decrease from the \$9,563 generated in 2019. The decrease in sales can be attributed to the significant decline of workforce traveling into the District due to Covid-19 and tele-working options. Mega Million sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$2,311 in 2020, representing a \$2,366 or 50.59% decrease from the \$4,677 expensed in 2019. Prizes were expensed at the rate of 48.74% of overall ticket sales in 2020. The noted decrease in ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$1,246 in 2020 or \$1,512 less than the \$2,758 produced in 2019.

Mega Millions sales totaled \$9,563 in 2019, representing a \$2,427 or 34.01% increase over the \$7,136 generated in 2018. The increase in ticket sales can be attributed to higher jackpots that increases player participation and sales volume. Mega Million sales are jackpot driven and high jackpots impact sales levels. Prizes amounted to \$4,677 in 2019, representing a \$1,145 or 32.42% increase from the \$3,532 expensed in 2018. Prizes were expensed at the rate of 48.91% of overall ticket sales in 2018. The noted increase in ticket sales offset by overall operating costs resulted in a transfer to the District's General Fund of \$2,758 in 2019 or \$666 more than the \$2,092 produced in 2018.

POWERBALL --- The Powerball game is a five out of sixty-nine plus one out of twenty-six terminal lottery game that pays a grand prize on an annuitized pari-mutuel basis or as a cash lump sum payment and all other prizes on a fixed basis. All annuitized prizes are paid in thirty annual graduated installments. The Powerball game is sponsored by the Multi-State Lottery Association (MUSL), a conglomerate of thirty-five (35) states, a Non-MUSL Group which consists of ten (10) states, the District of Columbia and the Virgin Islands. The jurisdictions combine resources and sales to offer larger jackpots. Party lotteries pool their sales and other resources, but otherwise account for operations separately. The Powerball Group introduced changes to Powerball on April 2, 2020. The changes include elimination of an automatic \$40 million beginning jackpot and

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the guaranteed increase of \$10 million between drawings. The beginning jackpot and increase between drawings will be based on game sales and interest rates. The changes to the game are the result of declining sales due to the Covid-19 pandemic.

Powerball sales totaled \$5,810 in 2020, representing a \$3,974 or 40.62% decrease from the \$9,784 generated in 2019. The decrease in sales can be attributed to the significant decline of workforce traveling into the District due to Covid-19 and tele-working options. Powerball sales are jackpot-driven, and high jackpots impact sales levels. Prizes amounted to \$2,726 in 2020 representing a \$1,970 or 41.95% decrease from the \$4,696 expensed in 2019. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense decreased due to decreased sales. The \$1,287 decrease in transfer to the District's General Fund to \$1,569 from the \$2,856 transferred in 2019 is due to the allocation of the transfer being based on the gaming revenues that decreased in 2020.

Powerball sales totaled \$9,784 in 2019, representing a \$750 or 8.30% increase from the \$9,034 generated in 2018. The increase in ticket sales can be attributed to higher jackpots experienced during the year. Powerball sales are jackpot-driven and high jackpots impact sales levels. Prizes amounted to \$4,696 in 2019, representing a \$476 or 11.28% increase from the \$4,220 expensed in 2018. Powerball prizes are expensed at the rate of 50.0% of sales intake offset by lapsed prizes. Prize expense increased due to greater sales intake as a result of higher jackpots than in 2018. The \$19 increase in transfer to the District's General Fund to \$2,856 from the \$2,837 transferred in 2018 is due to the allocation of the transfer being based on the gaming revenues that increased in 2019.

RACE2RICHES --- Race2Riches is an interactive horseracing game with the opportunity to win up to \$1,000. Drawings or races are held every four minutes seven days a week during regular operating hours. Race2Riches ticket sales amounted to \$8,937 in 2020, representing a \$227 or 2.61% increase over the \$8,710 generated in 2019. The increase in sales in 2020 from the prior year's total is primarily because of the prize payout on a game that plays every four minutes. Prize expense increased to \$6,239 in 2020 from \$5,958 in 2019, which represented a \$281 or 4.72% increase over 2019. The \$177 decrease in transfers to the District's General Fund in 2020 to \$974, is less than the 2019 transfer amount of \$1,151. The decrease in the transfer is attributed to the increase in prize expense and the decrease in gross margin.

Race2Riches ticket sales amounted to \$8,710 in 2019, representing a \$204 or 2.40% increase over the \$8,506 generated in 2018. The increase in sales in 2019 from the prior year's total is primarily because of the prize payout on a game that plays every four minutes. Prize expense increased to \$5,958 in 2019 from \$5,670 in 2018, which represented a \$288 or 5.08% increase over 2018. The \$134 decrease in transfers to the District's General Fund in 2019 to \$1,151, is less than the 2018 transfer amount of \$1,285. The decrease in the transfer is attributed to the decrease in sales and the decrease in gross margin.

TAP-N-PLAY --- Tap-N-Play games are touch activated, interactive, instant win style terminal games played through self-service terminal (MP). Players use the touch screen of the terminal to choose the games and game parameters (price points, numbers, play board etc.). The games are presented in high-quality graphic animations and sounds. Tap-N-Play games launched on April 5, 2013, with 2 games, and are being expanded to accommodate various play styles and themes. Currently, D.C. Lottery offers eight (8) different types of games with \$1, \$2, \$3, \$5, \$10 and \$20 price points. Play style includes number/symbol match, bingo, reveal symbol, double or nothing and high/low. Overall odds of winning are 1 in 3.66.

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Ticket sales amounted to \$2,171 and \$2,331 in fiscal years 2020 and 2019, respectively. The prize expense was \$1,676 and \$1,817 and amounted to a 77.20% and 77.95% prize payout rate in 2020 and 2019, respectively. Retailer commissions were \$159 in 2020 and \$171 in 2019. Transfers to the District's General Fund were \$127 and \$141 and represented 0.34% and 0.31% of sales for 2020 and 2019, respectively. The decrease in the transfer to the General Fund is primarily because of decreased sales.

Table 4: Sports Wagering Bets, Total Stakes, Total Settlements, Payouts, GGR and Transfers
(In Thousands)

| Index Class | Number of Bets | Total Stakes | Total Revenue | Total Payouts | GGR | Contractor Fees | Transfers |
|-------------------------|----------------|--------------|---------------|---------------|--------|-----------------|-----------|
| Fiscal Year 2020 | | | | | | | |
| SPORTS WAGERING | 193 | \$ 6,240 | \$ 6,113 | \$ (5,406) | \$ 834 | \$ 355 | \$ 352 |
| LICENSING FEES | - | - | 683 | - | - | - | - |
| Total | 193 | \$ 6,240 | \$ 6,796 | \$ (5,406) | \$ 834 | \$ 355 | \$ 352 |

SPORTS WAGERING --- The Sports Wagering Lottery Amendment Act of 2018, which authorizes the District of Columbia to engage in sports wagering, was approved on December 18, 2018. The Office of Lottery and Gaming (OLG) launched sports wagering on May 28, 2020 via mobile and internet channels. Players can place wagers on offered sporting events after establishing an e-wallet account and having their identity verified. The OLG vendor is responsible for the sportsbook and has a contracted payout percentage with the OLG of 80%. The vendor is responsible for the costs of percentage points in excess of 80%. The vendor is paid 42.5% of the Gross Gaming Revenue (GGR) as a contractor's fee.

In its inaugural year (which consisted of 4 months), the total stakes were \$6,240 and the revenue totaled \$6,113. Bonuses equaled \$127. The payouts totaled \$5,406 with a payout percentage of 86.6%. GGR (stakes - payouts) totaled \$834 and the Net Gaming Revenue (NGR = stakes - bonuses - payouts) totaled \$707. The percentage of GGR expense (contractor's fee) was \$355. Transfers to the District's General Fund amounted to \$352. Other direct costs are not factored in the transfer amount.

INTEREST, DIVIDENDS, LICENSE & PERMIT FEES AND OTHER INCOME

All idle cash of the Lottery is invested through the District's General Fund Pooled Investments Account. Powerball, Mega Millions and Hot Lotto receipts transferred to MUSL to fund major jackpots are invested in securities prior to jackpots being hit and earnings are allocated annually to party lotteries. Interest and dividend income, shown separately in the financial statements, decreased by \$280, increased by \$214 and \$61 in fiscal years 2020, 2019, and 2018, respectively. Interest income has been severely impacted by market conditions, the national economy, and other factors beyond the control of individual entities.

License and Permit Fees decreased by \$5 to \$5 in 2020 and increased by \$5 to \$10 in 2019. It also decreased by \$18 to \$5 in 2018.

Charitable Gaming Activities

The Lottery also oversees charitable gaming activities to include the licensing and regulation of charitable and other not-for-profit organizations conducting bingo, raffles, and other fund-raising activities within the District of Columbia. The mission of the Lottery with respect to charitable gaming is to ensure that only

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qualified organizations are licensed to conduct fund-raising activities and that they are carried out in accordance with existing laws, rules and regulations. Revenues generated through the issuance of licenses, processing fees, etc. are not intended to cover costs associated with overseeing program activities.

Known Facts Likely to Impact Future Financial Conditions

The Lottery anticipates a continued negative impact on overall sales and revenue in fiscal year 2021 due to the Covid-19 global pandemic and jurisdictional protocols put in place to deal with the pandemic. Lottery sales are directly impacted by the population swell of federal and city employees traveling into the jurisdiction daily for work, and lottery retailers being open for business. As a result of temporary and permanent closings of businesses, stay-at-home orders and tele-working options for area employees (that may continue through at least Q2 of FY 2021), overall lottery sales are foreseeable to continue to be negatively impacted. However, new equipment, products and revenue sources projected in FY 2021 are hopeful in mitigating any negative impact.

The Lottery entered into a new contract in FY 2020 with its gaming system vendor to provide the traditional lottery and new sports wagering gaming services and platform. The new contract includes the modernization of all lottery self-service machines and equipment at retailer locations which is expected to ultimately increase the productivity of the machines. The modernization replaces self-service machines and equipment provided under the previous contract originating in 2010. In addition, it is anticipated that some retailer locations may also have self-service machines that will allow for the purchase of sports wagering offerings (sporting events available to bet on). Currently, sports wagering is only offered via mobile and internet options within the District's boundaries to verified, e-wallet account holders.

The Lottery anticipates that a first full year of sports wagering activity, that may include expansion to the retailer level in Q4 of the fiscal year will provide a positive financial impact to sales and revenue in FY 2021. The Lottery expects to continue capitalizing on the momentum being experienced in Q1 of FY 2021 with the return of a full schedule of professional sporting events, albeit, offset with the canceling of some major college sporting events. In addition to serving as the gaming operator for the District, the Lottery also serves as the gaming regulator; responsible for overseeing compliance of gaming rules and performing enforcement actions on private businesses engaging in sports wagering. Private businesses are required to be licensed to engage in sports wagering. There is anticipation that fees for Class A (2 remaining), B and C sports wagering licenses will continue to be collected as businesses desire to move into the jurisdiction and enter into the sports wagering arena.

The Lottery is hopeful that the launch of its iLottery platform in Q1 of FY 2021, which provides players within the District's boundaries with verified e-wallet accounts, the ability to purchase Mega Millions, Powerball and e-Instant tickets via mobile and internet options will also be a catalyst for minimizing or leveling any potential negative impact on overall traditional lottery games' sales and revenue. The iLottery platform will eventually encounter a roll-out of additional traditional lottery games available for purchase and play and is planned in Q4 of FY 2021.

Contacting the Lottery

Interested parties can contact the Office of Lottery and Gaming, 2235 Shannon Place, SE, Fifth Floor, Washington, D.C. 20020.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
STATEMENTS OF NET POSITION
AS OF SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

| | <u>2020</u> | <u>2019</u> |
|--|-----------------|-----------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 16,071 | \$ 13,214 |
| Accounts Receivable, net | 5,077 | 3,858 |
| Prepaid Expenses and Other | 3 | 3 |
| Restricted Investments | <u>410</u> | <u>410</u> |
| Total Current Assets | <u>21,561</u> | <u>17,485</u> |
| Non-current Assets: | | |
| Capital Assets, net | 414 | 595 |
| Restricted Investments | <u>399</u> | <u>780</u> |
| Total Non-current Assets | <u>813</u> | <u>1,375</u> |
| Total Assets | <u>22,374</u> | <u>18,860</u> |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 4,171 | 2,123 |
| Compensation Liabilities | 453 | 350 |
| Unearned Revenues | 61 | 55 |
| Accrued Prizes and Commissions | 10,448 | 9,539 |
| Other Accrued Liabilities | 863 | 342 |
| Compensated Absences | 140 | 46 |
| Obligations for Unpaid Prizes - Current Portion | <u>410</u> | <u>410</u> |
| Total Current Liabilities | <u>16,546</u> | <u>12,865</u> |
| Non-current Liabilities: | | |
| Obligations for Unpaid Prizes - Noncurrent Portion | 399 | 780 |
| Compensated Absences | <u>661</u> | <u>520</u> |
| Total Non-current Liabilities | <u>1,060</u> | <u>1,300</u> |
| Total Liabilities | <u>17,606</u> | <u>14,165</u> |
| Net Position | | |
| Net Investment in Capital Assets | 414 | 595 |
| Unrestricted | <u>4,354</u> | <u>4,100</u> |
| Total Net Position | <u>\$ 4,768</u> | <u>\$ 4,695</u> |

The accompanying notes are an integral part of these financial statements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

| | <u>2020</u> | <u>2019</u> |
|--|-----------------|-----------------|
| Operating Revenues | | |
| Instant Games | \$ 47,188 | \$ 52,335 |
| Terminal Games | 160,944 | 160,727 |
| License and Permit Fees | 5 | 10 |
| Sports Wagering (SW) | 6,113 | - |
| License and Infraction Fees (SW) | <u>683</u> | <u>-</u> |
| Total Operating Revenues | <u>214,933</u> | <u>213,072</u> |
| Operating Expenses | | |
| Prizes | 122,989 | 123,375 |
| Retailer Commissions | 13,827 | 13,860 |
| Contractor Fees | 7,325 | 6,839 |
| Advertising | 6,206 | 6,749 |
| Prizes – SW | 5,406 | - |
| Contractor Fees - SW | <u>354</u> | <u>-</u> |
| Total Direct Costs | 156,107 | 150,823 |
| Salaries | 9,178 | 8,200 |
| Professional | 1,209 | 1,170 |
| Contractual Services | 6,945 | 4,451 |
| Administration | 3,351 | 3,641 |
| Depreciation | <u>197</u> | <u>169</u> |
| Total Operating Expenses | <u>176,987</u> | <u>168,454</u> |
| Operating Income | 37,946 | 44,618 |
| Non-operating Revenue | | |
| Interest and Dividend Income | <u>187</u> | <u>467</u> |
| Net Income Before Transfers | 38,133 | 45,085 |
| Transfer to General Fund | <u>(38,060)</u> | <u>(45,050)</u> |
| Change in Net Position | 73 | 35 |
| Net Position, Beginning of Year | <u>4,695</u> | <u>4,660</u> |
| Net Position, End of Year | <u>\$ 4,768</u> | <u>\$ 4,695</u> |

The accompanying notes are an integral part of these financial statements.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

| | 2020 | 2019 |
|---|------------------|------------------|
| Operating Activities: | | |
| Cash Receipts from Customers | \$ 213,032 | \$ 213,096 |
| Cash Receipts from Others | 688 | 10 |
| Cash Payments to Vendors | (22,820) | (22,871) |
| Cash Payments to Employees | (8,841) | (8,103) |
| Cash Payments for Prizes and Commissions | (141,313) | (137,021) |
| Net Cash and Equivalents Provided by Operating Activities | 40,746 | 45,111 |
| Cash Flows From Non-Capital Financing Activities | | |
| Transfers Out to the General Fund | (38,060) | (45,050) |
| Cash Flows From Capital Financing Activities | | |
| Acquisition of Capital Assets | (16) | (118) |
| Cash Flows From Investing Activities | | |
| Interest and Dividends | 187 | 467 |
| Net Increase in Cash and Equivalents | 2,857 | 410 |
| Cash and Cash Equivalents - Beginning of Year | 13,214 | 12,804 |
| Cash and Cash Equivalents - End of Year | \$ 16,071 | \$ 13,214 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | |
| Operating Income | \$ 37,946 | \$ 44,618 |
| Depreciation | 197 | 169 |
| <i>Effect of Changes in non-cash operating Assets and Liabilities</i> | | |
| Receivables | (1,219) | 22 |
| Prepaid Expenses | - | (1) |
| Accounts Payable | 2,048 | (45) |
| Compensation Liabilities | 338 | 97 |
| Unearned Revenue | 6 | 11 |
| Accrued Prizes | 909 | 215 |
| Other Current Liabilities | 521 | 25 |
| Net Cash Provided by Operating Activities | \$ 40,746 | \$ 45,111 |
| Non-cash Investing and Financing Activities: | | |
| Obligations for Unpaid Prizes by Restricted Investments | \$ 809 | \$ 1,190 |

The accompanying notes are an integral part of these financial statements

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF LOTTERY AND GAMING
NOTES TO THE FINANCIAL STATEMENTS *(Continued)*
SEPTEMBER 30, 2020 and 2019
(Dollar Amounts in Thousands)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) **Organization** --- The Lottery and Charitable Games Control Board (the Lottery) was established by Public Law 3-172 as an independent agency of the Government of the District of Columbia (the District). The name was changed to the Office of Lottery and Gaming effective May 3, 2019. In accordance with the law, the Lottery must remit its monthly gaming revenues, less prizes, operating expenses and a reserve not to exceed 2% of projected annual prize payments to the General Fund of the District.
- (b) **Measurement Focus and Basis of Accounting** --- The Lottery's basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The economic measurement focus reports all assets and liabilities associated with the operations and are included on the Statements of Net Position.
- (c) **Implementation of New Accounting Standards** --- In fiscal year 2020, the Lottery did not implement any pronouncements issued by the Governmental Accounting Standards Board (GASB): The Lottery will be analyzing the effects GASB Statement No. 87, entitled *Leases* and plans to adopt them as applicable by their effective date. This statement may have a material effect on the Lottery's financial statements once implemented.
- (d) **Basis of Presentation** --- The Lottery's financial transactions are accounted for as an enterprise fund in the District's financial statements. The accompanying financial statements are only those of the Lottery and are not intended to present the financial position, changes in financial position, and cash flows of the District taken as a whole. The District provides certain legal, central accounting and other services to the Lottery. The costs and revenue associated with these services are not reflected in these financial statements.
- (e) **Cash and Cash Equivalents** --- The Lottery participates in the District's pooled cash program whereby cash that is not needed for immediate disbursement is pooled with that of the District's and used to purchase current investments. In accordance with the law, the District may invest the pooled cash directly in, or through repurchase agreements, obligations of the United States or its agencies, which are fully guaranteed by the federal government, and in certificates of deposit, which are issued by federally insured banks. In accordance with District policies, substantially all deposits in the pooled cash program were insured or collateralized with securities held by the District or its agent in the District's name. Interest income from the investment of pooled cash is allocated to the Lottery based on the amount the Lottery invests in the pool. The Lottery considers the pooled cash to be cash equivalents for the purpose of cash flows because the pool may not hold the securities for more than 91 days. Cash and cash equivalents as of September 30, 2020 and 2019, respectively, were \$16,071 and \$13,214.

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(f) Investments -- Investments in U.S. government and agency securities are recorded at market value which approximates fair value. The Lottery categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Lottery has the following recurring fair value measurements as of September 30, 2020 and 2019:

- U.S. Government and Agency Securities of \$809 and \$1,190 as of September 30, 2020 and 2019, respectively are valued using quoted market prices, (Level 1 inputs)

(g) Revenues and Accounts Receivable (A/R) Recognition --- Revenues and A/R from terminal tickets are recorded when the drawings are held. Terminal tickets sold in advance of draws are recorded as unearned revenues. Revenues and A/R from instant tickets are recorded when related packs are activated.

(h) Allowance for Uncollectible Accounts --- The Lottery establishes an allowance for uncollectible accounts for all accounts receivable over 180 days old.

(i) Unclaimed Prizes --- Prizes must be claimed within 180 days (D.C. Code § 3-1318) following the drawing date for each game. Prizes unclaimed beyond this period are forfeited by the ticket holder. Total prizes lapsed amounted to \$835 and \$2,635 for the fiscal years 2020 and 2019, respectively. These forfeited prizes are netted against prize expense in the Statements of Revenues, Expenses and Change in Net Position.

(j) Capital Assets --- Capital assets are recorded at cost. The cost of major remodeling, betterments, and improvements of \$5 and greater are capitalized. Repairs and maintenance costs are expensed as incurred. When capital assets are retired or sold, the cost and related accumulated depreciation are removed from the appropriate property and equipment accounts, and resulting gains or losses are recorded.

Amortization and depreciation expense are calculated using the straight-line method over the following estimated useful lives:

| Category | Estimated Useful Life |
|-------------------------------|------------------------------|
| Machinery and Equipment | 5-8 years |
| Office Furniture and Fixtures | 5-8 years |
| Leasehold Improvements | 5-15 years |

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- (k) **Gaming Revenues** --- Gaming revenues consist of ticket sales, sports wagering settled stakes (dispositioned wagers as the result of an event taking place) and other related revenues including dividends and interest income, penalties assessed on delinquent agents' accounts, and charitable gaming fees. Revenues from terminal tickets are recorded as gaming revenues when the drawings are held. Terminal tickets sold in advance are recorded as unearned revenues until the drawings are held. Revenues are recorded when a terminal ticket is sold if the sale is not associated with a subsequent drawing. Revenues from instant tickets are recorded as gaming revenues when related packs are activated.
- (l) **Games and Prizes** --- The Lottery's main sources of income are from terminal and instant games and sports wagering. Terminal games are comprised of DC2, DC Three, DC Four, DC Five, Powerball, Mega Millions, Lucky for Life, Keno, Race2Riches, The Lucky One, Fast Play and Tap-N-Play. The games are managed by Intralot through a contracted agreement with the Lottery.
- (m) **Prize Expense** --- Instant tickets prize expense is based on the prize payout percentage for each instant lottery game and is accrued as the related gaming revenue is earned. Prize expenses for terminal games, excluding the Powerball, Mega Millions, and Fast Play, are accrued based on the draw liability associated with drawings for the specific games. Powerball's prize expenses are recorded at the rate of 50% of ticket sales. Mega Millions' prize expenses are recorded at rates ranging from 50% to 52.5% of regular and Mega-Plier sales. Fast Play's prize expenses are recorded when applicable winning tickets are sold. The accrued prize liability represents a payable for prize amounts that have not been claimed as of the fiscal year-end. Prize expenses for all games are reduced by the sum of lapsed prizes not claimed during the required period of 180 days from the sales draw date for terminal games and the respective game closing date for instant games.
- (n) **Compensated Absences** --- The Lottery permits employees to accumulate earned but unused vacation and sick pay benefits depending on the employee's length of service. Employees may be required to use any excess of 240 hours of vacation benefits by a specified date. The Lottery accrues for accumulated vacation as the benefits are earned by employees.

There is no maximum limit on the amount of unused sick pay benefits employees may accumulate. The Lottery does not accrue for non-vesting accumulating rights to receive sick pay benefits. Lottery employees participating in the Federal Civil Service Retirement System program may convert sick pay benefits to additional service time at the rate of one month for every 176 hours of sick leave not used at the point of retirement.

- (o) **Use of Estimates** --- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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NOTE 2 ACCOUNTS RECEIVABLE

The components of accounts receivable as of September 30, 2020 and 2019 were as follows:

| | 2020 | 2019 |
|---------------------------------|-------------|-------------|
| Due from Agents: | | |
| Terminal Games | \$ 1,959 | \$ 664 |
| Instant Games | 2,412 | 3,194 |
| Total Due from Agents | 4,371 | 3,858 |
| Other | 707 | - |
| Total Accounts Receivable | 5,078 | 3,858 |
| Allowance for Doubtful Accounts | (1) | - |
| | \$ 5,077 | \$ 3,858 |

NOTE 3 CAPITAL ASSETS

A summary of capital assets as of September 30, 2020 and 2019 were as follows:

| | Balance as of October 1, 2019 | Additions | Dispositions | Balance as of September 30, 2020 |
|---------------------------------------|--|------------------|---------------------|---|
| Cost: | | | | |
| Machinery and Equipment | \$ 3,979 | \$ 115 | \$ (99) | \$ 3,995 |
| Office Furniture and Fixtures | 20 | - | - | 20 |
| Leasehold Improvements | 758 | - | - | 758 |
| Total Cost | 4,757 | 115 | (99) | 4,773 |
| Less: Accumulated Depreciation | | | | |
| Machinery and Equipment | (3,384) | (296) | 99 | (3,581) |
| Office Furniture and Fixtures | (20) | - | - | (20) |
| Leasehold Improvements | (758) | - | - | (758) |
| Total Accumulated Depreciation | (4,162) | (296) | \$ 99 | (4,359) |
| Capital Assets – Net | \$ 595 | \$ (181) | \$ - | \$ 414 |
| | | | | |
| | Balance as of October 1, 2018 | Additions | Dispositions | Balance as of September 30, 2019 |
| Cost: | | | | |
| Machinery and Equipment | \$ 3,861 | \$ 118 | \$ - | \$ 3,979 |
| Office Furniture and Fixtures | 20 | - | - | 20 |
| Leasehold Improvements | 758 | - | - | 758 |
| Total Cost | 4,639 | 118 | - | 4,757 |
| Less: Accumulated Depreciation | | | | |
| Machinery and Equipment | (3,215) | (169) | - | (3,384) |
| Office Furniture and Fixtures | (20) | - | - | (20) |
| Leasehold Improvements | (758) | - | - | (758) |
| Total Accumulated Depreciation | (3,993) | (169) | - | (4,162) |
| Capital Assets – Net | \$ 646 | \$ (51) | \$ - | \$ 595 |

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NOTE 4 MULTI-STATE LOTTERY ASSOCIATION (MUSL)

(a) *Background*

The Lottery is a member of the Multi-State Lottery Association (MUSL). MUSL has thirty-three (33) members and administers multi-state lottery games. Powerball was initiated on April 20, 1992 and is a semi-weekly pari-mutuel drawing with a minimum grand prize of \$40,000. All MUSL members remit a portion of their Powerball revenues to MUSL for the prize payments and administrative expenses of the game.

(b) *Restricted Investments and Obligations for Unpaid Prizes*

Powerball jackpot prizes are payable to winners in annual installments over 20 to 25 years. The Lottery is responsible for sending the annual payments to Powerball winners who purchased their winning tickets from the Lottery. MUSL is responsible for providing the Lottery cash to fund these installment payments.

As of September 30, 2020, and 2019, MUSL had purchased for the Lottery, U.S. government securities aggregating \$810 and \$1,210, respectively to fund future installment payments for the Lottery's Powerball winner.

The market value of these securities was \$809 and \$1,190 as of September 30, 2020 and 2019, respectively. The investments provide the Lottery cash payments corresponding to the Lottery's obligations to the prize winners. The Lottery has reflected the market value of the securities as restricted investments and as corresponding obligations for unpaid prizes on the statements of net position. All restricted investments are insured and registered or are held by the Lottery or its agent in the Lottery's name.

As of September 30, 2020, the Lottery had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Less Than 1</u> | <u>1-5</u> | <u>6-10</u> | <u>More Than 10</u> |
|---------------------------------------|-------------------|--------------------|------------|-------------|---------------------|
| U.S. Government and Agency Securities | \$809 | \$410 | \$399 | \$ - | \$ - |

As of September 30, 2019, the Lottery had the following investments and maturities:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Less Than 1</u> | <u>1-5</u> | <u>6-10</u> | <u>More Than 10</u> |
|---------------------------------------|-------------------|--------------------|------------|-------------|---------------------|
| U.S. Government and Agency Securities | \$1,190 | \$410 | \$780 | \$ - | \$ - |

These investments are obligations explicitly guaranteed by the U.S. government and are held for prize annuities based on quoted market prices. The fair value of the liabilities is based on current interest rates of the related U.S. government security held to fund annuity obligations. MUSL's investment policy limits its exposure to credit risk by investing only in securities that are backed by the full faith and credit of the U.S. government or its agencies.

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As of September 30, 2020, and 2019, the Lottery had an interest in a SEC 2a-7 pooled government cash management fund of \$0 and \$10; the pool was not rated.

The prize pool for Powerball consists of 50% of each drawing period's sales. Two percent of the prize pool is placed in a prize reserve fund and a set prize reserve fund. These reserve funds serve as contingency funds to protect MUSL from unforeseen liabilities. As of September 30, 2020, and 2019, the total Powerball prize reserve fund was approximately \$87,128 and \$81,737 respectively, of which the Lottery's share was approximately \$363 and \$337, respectively. In addition, the total Powerball set aside prize reserve fund as of September 30, 2020 and 2019 was approximately \$34,761 and \$40,152 respectively, of which the Lottery's share was approximately \$124 and \$149, respectively.

The balance remaining in the reserve funds are refundable to MUSL members if a member leaves or if MUSL disbands. If a member leaves, the member must wait a year before their portion of the prize reserve funds is returned. The balance in the reserve funds may be used at the discretion of MUSL's Board of Directors. Accordingly, the Lottery's share of the reserve funds is not reflected in the accompanying financial statements.

The prize pool for Mega Millions consists of 50% of each drawing period's sales. Two percent of the prize pool is placed in a prize reserve fund and a set prize reserve fund. These reserve funds serve as contingency funds to protect MUSL from unforeseen liabilities. As of September 30, 2020, and 2019, the total Mega Millions prize reserve fund was approximately \$90,567 and \$95,496, respectively, of which the Lottery's share was approximately \$433 and \$456, respectively.

The balance remaining in the reserve funds are refundable to MUSL members if a member leaves or if MUSL disbands. If a member leaves, the member must wait a year before their portion of the prize reserve funds is returned. The balance in the reserve funds may be used at the discretion of MUSL's Board of Directors. Accordingly, the Lottery's share of the reserve funds is not reflected in the accompanying financial statements.

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(c) Credit Risk

In order to control credit risk, the Lottery invests only in obligations of the United States Government or Agency securities. As of September 30, 2020, and 2019, the Lottery's investments in U.S. Government and agency securities were rated Aaa by Moody's Investor Service.

(d) Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Lottery will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, or not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent, but not in the government's name. Lottery policy requires that a third-party custodian hold investment securities and the collateral underlying all investments, in the government's name. As of September 30, 2020, and 2019, the Lottery's investments were not exposed to custodial credit risk.

NOTE 5 OBLIGATIONS FOR UNPAID PRIZES

Powerball jackpot prizes are paid in 20 or 25-year installments. The first installment is paid approximately two weeks after the prize is claimed. The subsequent annual payments are funded with U.S. Treasury Strips purchased by MUSL for the Lottery. Jackpot prize payables represent the future annual prize payments valued at cost plus accrued interest (present value of securities held to maturity) of the investment securities funding the payments.

| | Jackpot | |
|------------------------------------|----------------------------|-------------|
| | As of September 30, | |
| | 2020 | 2019 |
| Jackpot Prizes Payable: | | |
| Due Within One Year | \$ 410 | \$ 410 |
| Due in Subsequent Years | 399 | 780 |
| Total (Present Value) | 809 | 1,190 |
| Add: Interest to Maturity | 1 | 20 |
| Jackpot Prizes Payable at Maturity | \$ 810 | \$ 1,210 |

The unamortized discount on the prizes payable is based on interest rates which range from 2.357% to 2.357% and reflect the interest rates earned by the investments held to fund the related liabilities.

The aggregate amount of prizes payable due in each of the two years following September 30, 2020, is as follows:

| | |
|-------|--------|
| 2021 | \$ 410 |
| 2022 | 399 |
| Total | \$ 809 |

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The following schedule presents the changes in prizes payable:

| | |
|---|----------|
| Balance as of October 1, 2018 | \$ 1,547 |
| Increase | 20 |
| Decrease | (377) |
| Balance as of October 1, 2019 | 1,190 |
| Increase | 1 |
| Decrease | (382) |
| Balance as of September 30, 2020 | \$ 809 |

NOTE 6 GAMING REVENUES AND EXPENSES

Gaming revenues and expenses for the fiscal years ended September 30, 2020 and 2019 were as follows:

| Index Class | Gaming Revenue | Prizes | Agent Commissions | Contractor Fees | Advertising | Gross Margin |
|-------------------------|-------------------|--------------------|--------------------|-------------------|-------------------|------------------|
| Fiscal Year 2020 | | | | | | |
| DC 3 | \$ 41,843 | \$ (21,316) | \$ (2,735) | \$ (1,473) | \$ (1,248) | \$ 15,071 |
| DC TWO | 632 | (316) | (41) | (22) | (19) | 234 |
| DC FIVE | 24,416 | (11,569) | (1,399) | (859) | (728) | 9,861 |
| DC FOUR | 55,931 | (30,605) | (3,643) | (1,968) | (1,668) | 18,047 |
| FAST PLAY | 7,838 | (5,712) | (563) | (276) | (234) | 1,053 |
| INSTANT | 47,188 | (34,815) | (3,565) | (1,661) | (1,407) | 5,740 |
| THE LUCKY ONE | 68 | (45) | (5) | (2) | (2) | 14 |
| KENO | 6,654 | (4,580) | (467) | (234) | (198) | 1,175 |
| LUCKY FOR LIFE | 1,903 | (1,079) | (107) | (67) | (57) | 593 |
| MEGA MILLIONS | 4,741 | (2,311) | (214) | (167) | (141) | 1,908 |
| POWERBALL | 5,810 | (2,726) | (303) | (205) | (173) | 2,403 |
| RACE2RICHES | 8,937 | (6,239) | (626) | (315) | (266) | 1,491 |
| TAP-N-PLAY | 2,171 | (1,676) | (159) | (76) | (65) | 195 |
| OTHER | 5 | - | - | - | - | 5 |
| Total | \$ 208,137 | \$(122,989) | \$ (13,827) | \$ (7,325) | \$ (6,206) | \$ 57,790 |
| Fiscal Year 2019 | | | | | | |
| DC 3 | \$ 38,555 | \$ (18,610) | \$ (2,485) | \$ (1,238) | \$ (1,221) | \$ 15,001 |
| DC TWO | 540 | (254) | (35) | (17) | (17) | 217 |
| DC FIVE | 22,475 | (13,114) | (1,278) | (721) | (712) | 6,650 |
| DC FOUR | 51,757 | (24,124) | (3,217) | (1,661) | (1,639) | 21,116 |
| FAST PLAY | 8,110 | (6,002) | (586) | (260) | (257) | 1,005 |
| INSTANT | 52,335 | (38,453) | (3,930) | (1,680) | (1,658) | 6,614 |
| THE LUCKY ONE | 179 | (119) | (12) | (6) | (6) | 36 |
| KENO | 6,605 | (4,091) | (449) | (212) | (209) | 1,644 |
| LUCKY FOR LIFE | 2,118 | (1,460) | (107) | (68) | (67) | 416 |
| MEGA MILLIONS | 9,563 | (4,677) | (466) | (307) | (303) | 3,810 |
| POWERBALL | 9,784 | (4,696) | (517) | (314) | (310) | 3,947 |
| RACE2RICHES | 8,710 | (5,958) | (607) | (280) | (276) | 1,589 |
| TAP-N-PLAY | 2,331 | (1,817) | (171) | (75) | (74) | 194 |
| OTHER | 10 | - | - | - | - | 10 |
| Total | \$ 213,072 | \$(123,375) | \$ (13,860) | \$ (6,839) | \$ (6,749) | \$ 62,249 |

GOVERNMENT OF THE DISTRICT OF COLUMBIA
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NOTE 7 TRANSFERS TO THE DISTRICT'S GENERAL FUND

In accordance with D.C. Code § 3-1312, the Chief Financial Officer shall first pay for the operation, administration, and capital expenses of the specific forms of gambling, including the payment of prizes to winners of the games. The remainder shall be paid over by the CFO, on a monthly basis promptly after the 1st of the month for the preceding month, into the General Fund of the District of Columbia as general-purpose revenue funds of the District of Columbia. The Mayor may approve a change in the reserve limit, as necessary, upon the request of the Lottery. During the fiscal years ended September 30, 2020 and 2019, the Lottery's net transfers to the General Fund of the District were \$38,060 and \$45,050, respectively.

NOTE 8 LONG-TERM LIABILITIES

The following summarizes long-term liabilities as of September 30, 2020 and 2019:

| | Balance as of 9/30/2019 | Additions | Reductions | Balance as of 9/30/2020 | Amount Due Within One Year |
|-------------------------------|--|------------------|-------------------|--|---|
| Obligations for Unpaid Prizes | \$ 1,190 | \$ - | \$ (381) | \$ 809 | \$ 410 |
| Compensated Absences | 566 | 593 | (358) | 801 | 140 |
| Total Long-term Liabilities | <u>\$ 1,756</u> | <u>\$ 593</u> | <u>\$ (739)</u> | <u>\$ 1,610</u> | <u>\$ 550</u> |

| | Balance as of 9/30/2018 | Additions | Reductions | Balance as of 9/30/2019 | Amount Due Within One Year |
|-------------------------------|--|------------------|-------------------|--|---|
| Obligations for Unpaid Prizes | \$ 1,547 | \$ - | \$ (357) | \$ 1,190 | \$ 410 |
| Compensated Absences | 491 | 511 | (436) | 566 | 46 |
| Total Long-term Liabilities | <u>\$ 2,038</u> | <u>\$ 511</u> | <u>\$ (793)</u> | <u>\$ 1,756</u> | <u>\$ 456</u> |

NOTE 9 RETIREMENT PROGRAMS

(a) *Defined Benefit Pension Plan*

The majority of the full-time Lottery employees hired before October 1, 1987 are covered by the Federal Civil Service Retirement System. The Federal Civil Service Retirement System is a cost-sharing multiple employer pension plan.

The U.S. Office of Personnel Management is responsible for administering the Federal Civil Service Retirement System, including collecting the contributions and disbursing the benefits.

The Lottery contributes 7.00% and employees contribute 7.25% of employees' covered compensation to the Federal Civil Service Retirement System. Contributions by the Lottery amounted to \$14 and \$34 for the years ended September 30, 2020 and 2019, respectively. The number of Lottery employees covered under the Federal Civil Service Retirement System is 2.

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(b) Defined Contribution Plan

All full-time employees hired after September 30, 1987 are covered by the District-sponsored defined contribution plan. Employees do not contribute to this plan and are eligible to participate after one year of service. The Lottery contributes 5% of an eligible employee's base salary, which amounted to \$271 and \$336 for the fiscal years ended September 30, 2020 and 2019, respectively.

Contributions and earnings vest fully after four years of service following a one-year waiting period. Contributions and earnings are forfeited if separation occurs before five years of credited service. These contributions are not considered assets of the Lottery or the District, which have no further liability to this plan.

(c) Deferred Compensation Plan

Lottery employees are eligible to participate in the District-sponsored deferred compensation plan (D.C. Code § 47-3601) created in accordance with Internal Revenue Code Section 457. Employees may defer an amount equal to or less than 100% of includible compensation or \$19 in 2020 and \$19 in 2019. Maximum annual contribution amounts are determined and set by the Internal Revenue Service (IRS). Compensation deferred, and income earned is taxable when paid or made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency. Contributions are not assets of the Lottery or District, which have no further liability to the plan.

NOTE 10 COMMITMENTS AND CONTINGENCIES

(a) Operating Leases

The Lottery leased certain facilities under a fifteen (15) year long-term, non-cancelable, and operating lease, effective December 12, 2014. Future minimum rental commitments are as follows:

| <u>Years Ending September 30</u> | <u>Amount</u> |
|----------------------------------|------------------|
| 2021 | \$ 2,074 |
| 2022 | 2,124 |
| 2023 | 2,176 |
| 2024 | 2,228 |
| 2025 | 2,282 |
| 2026-2029 | 9,767 |
| Total | <u>\$ 20,651</u> |

Rent expense for the fiscal years ended September 30, 2020 and 2019 was as follows:

| | | |
|--------------|-------------|-------------|
| | <u>2020</u> | <u>2019</u> |
| Rent Expense | \$ 2,568 | \$ 2,456 |

GOVERNMENT OF THE DISTRICT OF COLUMBIA
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(b) Annuity Contracts

The winner of a \$1 million DC Black instant ticket in 2012 was awarded an annuity prize payable in annual installments over 20 years, with the first payment made by the Lottery. The Lottery entered into an agreement with an insurance company under which the Lottery purchased an annuity under contract that provides payments corresponding to its obligations to the prize winner. Future installment payments will be made directly to the winner by the insurance company, thus neither the present value of the annuity nor the present value of related future payments are reflected in the accompanying financial statements. The Lottery will be liable for such future payments if the insurance company defaults on its payments.

(c) Risk of Loss

The Lottery is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Lottery or District covers all of the Lottery's claim settlements and judgments out of the Lottery revenues or the District's General Fund resources.

NOTE 11 RELATED PARTY TRANSACTIONS

The Lottery usually has related party transactions with the Office of the Chief Financial Officer (OCFO) of the District of Columbia Government to provide financial and managerial oversight. These services included, but were not limited to, internal audit and internal security, legal, human resources, procurement, financial management, and executive management oversight services. The annual contractual cost was \$1,059 and \$887 in fiscal years 2020 and 2019, respectively. Other services provided by District Government entities to the Lottery include central processing of payroll, accounting, computer technology services, and the handling of intra-district transactions for rent, telephone, security guard services, etc. Personnel costs for these services are budgeted and accounted for as part of the respective entity's regular operations.

NOTE 12 LITIGATION

The Lottery is a defendant in legal claims arising from its normal operations. While the ultimate outcome of unsolved lawsuits cannot be predicted at the time, it is the opinion of management and in-house counsel that the disposition of any litigation in which the Lottery is involved will not have a material adverse effect on the financial position, results of operations, or cash flows of the Lottery.

NOTE 13 SUBSEQUENT EVENTS

The Lottery did not have any subsequent events that based on the facts and circumstances, required recording or disclosure in the financial statements for the year ended September 30, 2020. Events and transactions were evaluated through January 8, 2021, the date the financial statements were available to be issued.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

To the Mayor, Members of the Council of the Government of the District of Columbia,
Inspector General of the Government of the District of Columbia and
The Management of the Office of Lottery and Gaming
Washington, D.C.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Government of the District of Columbia Office of Lottery and Gaming (the Lottery), an enterprise fund of the Government of the District of Columbia, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Lottery's basic financial statements, and have issued our report thereon dated January 8, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lottery's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lottery's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lottery's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lottery's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Washington, D.C.
January 8, 2021